

Financial Statements

**Berrien Mental
Health Authority**

Benton Harbor, Michigan

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Berrien Mental Health Authority	County Berrien
Fiscal Year End 9-30-2006	Opinion Date 11-22-2006	Date Audit Report Submitted to State 3-29-2007	

We affirm that:

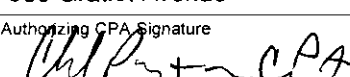
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	Not Applicable	
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
		Zip 48801	
Authorizing CPA Signature 		Printed Name CHAD R. PAYTON, CPA	License Number 21946

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INDEPENDENT AUDITOR'S REPORT

Berrien Mental Health Authority
Benton Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Berrien Mental Health Authority (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Authority. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2006

This section of the Berrien Mental Health Authority (BMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Summit Pointe (the Community Mental Health Authority of Calhoun County) is the designated Medicaid PIHP for a region consisting of Barry, Branch, Berrien, Calhoun, and Van Buren counties. BMHA is affiliated with and subcontracts for Medicaid funding through Summit Pointe, rather than directly with the state. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

FINANCIAL HIGHLIGHTS

1. Operating results showed a surplus of \$830 thousand. At the end of fiscal 2005, \$367 thousand of unspent Medicaid reinvestment funds were transferred to Summit Pointe. During fiscal 2006, all of the Medicaid Reinvestment funds previously transferred were depleted on specialized programs. (1) Summit Pointe has agreed to fund a like amount for the same specialized programs for fiscal 2007.
2. Unrestricted net assets increased \$788 thousand or 42.9% to \$2.626 million. (2)
3. Outlay for depreciable assets decreased \$255 thousand from the prior year, not taking into effect depreciation. (3)

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2006

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are government-wide statements and fund statements.

Government-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2006

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2006 and 2005.

Summary of Net Assets

As of September 30, 2006 and 2005
(In \$000s)

	<u>2006</u>	<u>2005</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 6,040	\$ 5,063	\$ 977	19.3%
Restricted assets	500	380	120	31.6%
Capital assets	682	780	(98)	-12.6%
Total assets	<u>7,222</u>	<u>6,223</u>	<u>999</u>	16.1%
<u>Liabilities</u>				
Current liabilities	3,489	3,299	190	5.8%
Noncurrent liabilities	577	598	(21)	-3.5%
Total liabilities	<u>4,066</u>	<u>3,897</u>	<u>169</u>	4.3%
<u>Net Assets</u>				
Investment in capital assets	393	414	(21)	-5.1%
Restricted for risk management	137	74	63	85.1%
Unrestricted	2,626	1,838	788	42.9%
Total net assets	<u>\$ 3,156</u>	<u>\$ 2,326</u>	<u>\$ 830</u>	35.7%

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$2.6 million, an increase of \$787 thousand over the prior year. This increase is primarily due to positive net operating results as opposed to negative results in the prior year. (4)

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2006

Current assets consist of cash and cash equivalents, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations.

Current liabilities include accounts payable, accrued payroll, related taxes, benefits, deferred revenue, amounts due to others and the current portion of long-term debt. At year-end, expenses under the state general fund risk contract were less than funds provided by \$253 thousand, which is almost identical to the amount for fiscal 2005. This amount has been recorded as deferred revenue in current liabilities to be carried forward and used in fiscal 2007.

Restricted assets consist of cash and accrued interest receivable. These assets are restricted for payment of compensated absences and risk management exposure. Restricted assets of \$500 thousand have increased \$120 thousand from the prior year. (5)

Assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract. This risk reserve fund has been increased to \$137 thousand and is the equivalent of 2.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are stated at their original book value, net of accumulated depreciation.

In fiscal 2006, \$79 thousand was expended for capital acquisitions. Depreciation expense was \$178 thousand. The net change in capital assets was a decrease of \$98 thousand for the year. When depreciation expense exceeds capital expenditures, the net decrease represents a reduction in capital resources available for the future. (6)

As of year-end, the net book value of capital assets was 29% of the original book value, compared to 19% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If the percentage is low, it means that property and equipment is relatively old.

Non-current liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations, the long term portion of the telephone equipment loan, the loan on the Niles office building and vehicle loans. (7)

Restricted net assets include investment in capital assets, net of related debt. This was discussed on page I. The MDCH will not require the return of all general fund reserves in fiscal year 2007. (8)

Unrestricted net assets at the end of the year were \$2.6 million, an increase of \$788 thousand or 42.9% for the year. Unrestricted net assets were 36.4% of total assets, up from 29.5% at the end of the prior year. (9)

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2006

SUMMARY OF ACTIVITIES

The following summarizes the revenues, expenses and change in net assets on a government-wide basis for the years ended September 30, 2006 and 2005.

Summary of Activities

For the years ended September 30, 2006 and 2005
(In \$000s)

	<u>2006</u>	<u>2005</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>REVENUE</u>				
Medicaid specialty supports and services	\$ 20,404	\$ 18,815	\$ 1,589	8.4%
State general fund priority populations	5,082	4,866	216	4.4%
Adult benefit waiver program	554	581	(27)	-4.6%
MI Child	24	25	(1)	-4.0%
Program service revenue	749	730	19	2.6%
Grants and earned contracts	899	581	318	54.7%
County appropriation	500	500	-	0.0%
Interest income	244	123	121	98.4%
Other local income	36	24	12	50.0%
TOTAL REVENUE	<u>28,492</u>	<u>26,245</u>	<u>2,247</u>	8.6%
<u>EXPENSE</u>				
Contractual providers	15,373	14,163	1,210	8.5%
Program operations	8,236	8,742	(506)	-5.8%
Managed care administration	782	613	169	27.6%
General & Board administration	2,708	3,234	(526)	-16.3%
Local funds contributed to State	385	385	-	0.0%
Depreciation	178	290	(112)	-38.6%
TOTAL EXPENSE	<u>27,662</u>	<u>27,427</u>	<u>235</u>	0.9%
NET (EXPENSE) OVER REVENUE	830	(1,182)	2,012	170.2%
MEDICAID RESTRICTED FUND TRANSFER	-	1,732	(1,732)	
NET CHANGE IN UNRESTRICTED FUNDS	<u>\$ 830</u>	<u>\$ 550</u>	<u>\$ 280</u>	

Excess of Revenue over Expense from activities for the current year was \$830 thousand or 2.9% of revenue. This is an increase of \$2 million or 166.7% from the prior year loss of \$1.2 million. (10)

Revenue for the year was \$28.5 million, an increase of \$2.3 million or 8.6% from the prior year.

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2006

Medicaid specialty supports and services revenue of \$20.4 million represents 71.6% of total revenue and increased of \$1.6 million or 8.4% compared to the prior year. This Medicaid subcontract is on a net cost not to exceed basis. Unspent Medicaid subcontract funds of \$334 thousand are not revenue and are shown as amounts due to the PIHP. (11)

State general fund priority population revenue (formula funding) and (categorical) of \$5.1 million represents 17.8% of total revenue and increased \$216 thousand or 4.4% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There was \$253 thousand carried forward into fiscal 2007 and there was no lapse of state general funds to MDCH in the current year. (12)

Program service revenue of \$749 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. This represents 2.6% of total revenue and has increased \$19 thousand or 2.6% over the prior year. This revenue is becoming a significant source of local funds to meet match fund requirements and contribute to increased unrestricted fund balance.

Grants and earned contract revenue of \$899 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 3.2% of total revenue and has increased \$318 thousand or 54.7% over the prior year.

County appropriation revenue, interest income and other local income totaling \$780 thousand are available to meet state matching fund requirements. These revenue sources constitute 2.7% of revenue and have increased \$133 thousand or 20.6% from the prior year. The county appropriation was unchanged. The increase is attributable to higher interest rates than we saw in the prior fiscal year.

Total expense of \$27.7 million has increased \$300 thousand or 1.1% compared to the prior year. Personnel expense of \$7.9 million is 28.5% of total expense and has decreased \$800 thousand or 9.2%. Operating expense of \$19.5 million is 70.4% of total expense and has increased \$1.0 million or 5.4%. The increase in operating expense was a direct result of increases in health care expenses of \$1.2 million or 8.5% over the prior year.

BUDGET

The fiscal 2006 budget saw an increase in Medicaid funding from Summit Pointe as a result of "rebasings" Medicaid costs and encounters. The **General Fund** contract from the Michigan Department of Community Health has been received covering the period from 10/1/05 through 9/30/07.

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2006

MDCH AUDIT

On December 5, 2005, MDCH began their audit of fiscal year 2004. Field work was completed April 13, 2006. The total payback proposed is \$16,000. This was related to the way we depreciated a few items. We will recover all of this payback in future years through depreciation expense. While the preliminary results of this audit were known at the end of fiscal 2006, final results may not be known for several years. The audit of the Van Buren Mental Health Authority for fiscal 2002 has raised issues that affect all of the Venture affiliate members. Results from this audit would have the Berrien Mental Health Authority paying back to the Department of Mental Health approximately \$160,000. This amount, as well as amounts of the other affiliates, is being disputed at the Venture level.

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health specialty supports and services is unknown, but the outlook does not look favorable.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of BMHA is currently fair, balancing the priorities and budgets will become increasingly more difficult. The on-going attempts to smooth the results of rebasing may have a negative impact on the financial stability of the BMHA.

In November of 2006, the Authority purchased its second piece of property. This is a residential home located in Royalton Township and is licensed for 12 beds. The decision was made to purchase the 12 bed home due to the extreme shortage of residential beds in the county for the mentally ill adult population.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other post-employment benefits are defined as post-employment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all post-employment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic idea of GASB 45 is that other post-employment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences. Under the County Pension Plan, post retirement health insurance is not considered an "earned benefit." Per section 21.2 of the plan: "The County reserves the right to modify or discontinue health benefits or County subsidies at any time and the right to modify eligibility requirements at any time." For the calendar year 2006, the BMHA contribution to post retirement healthcare

BERRIEN MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2006

benefits was 1.74% of payroll. For the calendar year 2007, the BMHA contribution rate will be 2.02% of payroll.

In a letter from the pension plan actuaries, Gabriel Roeder Smith & Company, dated October 30, 2006, the BMHA contribution rate to fund future postretirement healthcare benefits should be 3.65% of payroll for the calendar year 2007. The difference in the rates of 2.02% and 3.65% will result in a shortfall of \$96,148.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009.

At present there is not a separate account for the BMHA postretirement health benefits like there is for the pension benefits. The actuaries have not as yet specified what amount is under-funded for the Authority's post retirement healthcare benefit.

* * * * *

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

BERRIEN MENTAL HEALTH AUTHORITY
Management's Discussion and Analysis
For the year ended September 30, 2006

REFERENCE NOTES

- (1) Medicaid Reinvestment expense is included in the Expense heading of the Statement of Activities, Page 2.
- (2) Reference to Net Assets section of the Statement of Net Assets, Page 1.
- (3) Reference to Expenditures section of the Statement of Revenues, Expenditures and Changes in Fund Balances, Page 6.
- (4) Reference to Total Current Assets and Total Current Liabilities sections of the Statement of Net Assets, Page 1.
- (5) Reference to Non-current Assets section of the Statement of Net Assets, Page 1.
- (6) Reference to Expenditures section of the Statement of Revenues, Expenditures and Changes in Fund Balances, Page 6. Also reference Summary of Activities - Expense section on the Management's Discussion and Analysis, Page V.
- (7) Reference Liabilities section of the Statement of Net Assets, Page 1.
- (8) Reference Net Assets section of the Statement of Net Assets, Page 1.
- (9) Reference Net Assets section of the Statement of Net Assets, Page 1.
- (10) Summary of Activities on Page V of the Management's Discussion and Analysis
references the Statement of Activities in the audit report on Page 2. Total Revenue of \$26.245 million references three figures from Page 2: Charges for Services, Operating Grants and Contributions, and General Revenues.
- (11) Reference is to Revenue section of the Summary of Activities on Page V of the
M D & A and Page 20 of the audit report "**Due to other Governmental Units.**"
- (12) Reference is to Revenue section of the Summary of Activities on Page V of the
M D & A.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Berrien Mental Health Authority
Statement of Net Assets
September 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$5,322,845	\$4,361,022
Accounts receivable, net	477,471	510,959
Due from other governmental units	76,566	52,321
Prepaid items	163,321	138,193
Total current assets	6,040,203	5,062,495
Noncurrent assets		
Cash and cash equivalents - restricted	500,006	380,348
Capital assets - depreciable, net	681,401	779,754
Total noncurrent assets	1,181,407	1,160,102
Total assets	7,221,610	6,222,597
Liabilities		
Current liabilities		
Accounts payable	2,301,233	1,802,280
Accrued wages and other payroll liabilities	248,648	288,907
Deferred revenue	253,341	254,596
Due to other governmental units	611,100	878,402
Notes payable - current portion	74,504	74,911
Total current liabilities	3,488,826	3,299,096
Noncurrent liabilities		
Note payable - long-term portion	213,790	291,309
Compensated absences	363,375	306,785
Total noncurrent liabilities	577,165	598,094
Total liabilities	4,065,991	3,897,190
Net Assets		
Invested in capital assets, net of related debt	393,107	413,534
Restricted for risk management	136,631	73,563
Unrestricted	2,625,881	1,838,310
Total net assets	\$3,155,619	\$2,325,407

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Activities
For The Year Ended September 30, 2006, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$27,662,328</u>	<u>\$21,344,902</u>	<u>\$6,867,410</u>	\$549,984	(\$1,329,443)
General revenues					
Unrestricted investment earnings				241,830	118,949
Restricted investment earnings				2,060	4,032
Miscellaneous revenues				<u>36,338</u>	<u>23,685</u>
Total general revenues				280,228	146,666
Transfers to affiliates				-	(366,833)
Change in net assets				830,212	(1,549,610)
Net assets - beginning of year				<u>2,325,407</u>	<u>3,875,017</u>
Net assets - end of year				<u>\$3,155,619</u>	<u>\$2,325,407</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Berrien Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2006 and 2005

	General Fund	
	2006	2005
Assets		
Cash and cash equivalents	\$5,322,845	\$4,307,859
Accounts receivable, net	477,471	510,959
Due from other governmental units	76,566	52,321
Prepaid items	163,321	138,193
Cash and cash equivalents - Restricted	446,907	380,348
Total Assets	<u>\$6,487,110</u>	<u>\$5,389,680</u>
Liabilities		
Accounts payable	\$2,301,233	\$1,802,280
Accrued wages and other payroll liabilities	248,648	288,907
Due to other funds	83,532	20,400
Deferred revenue	253,341	254,596
Due to other governmental units	611,100	878,402
Total liabilities	<u>3,497,854</u>	<u>3,244,585</u>
Fund balances		
Reserved for prepaid items	163,321	138,193
Reserved for compensated absences	363,375	306,785
Unreserved	2,462,560	1,700,117
Total fund balances	<u>2,989,256</u>	<u>2,145,095</u>
Total liabilities and fund balances	<u>\$6,487,110</u>	<u>\$5,389,680</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For The Year Ended September 30, 2006

Total fund balance - governmental funds	\$2,989,256
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	2,360,452
Deduct: accumulated depreciation	(1,679,051)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	136,631
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Notes payable	(288,294)
Deduct: Compensated absences	(363,375)
Net assets of governmental activities	<u>\$3,155,619</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Years Ended September 30, 2006 and 2005

	General Fund	
	2006	2005
REVENUES		
State grants		
Department of Community Health contract		
general fund formula and categorical	\$5,081,880	\$4,865,504
Adult Benefit Waiver	554,422	580,985
MI Child Capitation	23,725	25,469
Other State grants	17,177	26,057
Total State grants	<u>5,677,204</u>	<u>5,498,015</u>
Federal grants	<u>690,206</u>	<u>415,748</u>
Contributions - local units		
County appropriations	<u>500,000</u>	<u>500,000</u>
Charges for services		
Medicaid - Venture contract	20,404,179	18,814,694
Client and third party pay	748,834	730,178
Other contract revenue	191,889	139,331
Total charges for services	<u>21,344,902</u>	<u>19,684,203</u>
Interest and rents		
Interest	<u>241,830</u>	<u>118,949</u>
Other revenue		
United way	13,139	21,253
Miscellaneous	23,199	2,432
Total other revenue	<u>36,338</u>	<u>23,685</u>
Total revenues	28,490,480	26,240,600

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Years Ended September 30, 2006 and 2005

	General Fund	
	2006	2005
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel costs	\$7,891,066	\$8,656,029
Operating expenditures	19,519,963	18,508,026
Capital outlay	79,395	334,490
Debt service	94,887	83,624
	<u>27,585,311</u>	<u>27,582,169</u>
Total expenditures		
Excess of revenues over expenditures	905,169	(1,341,569)
Other financing sources (uses)		
Loan proceeds	-	152,000
Operating transfers in (out) - other funds	(61,008)	(16,624)
Operating transfers in (out) - other governmental units	-	(366,833)
	<u>844,161</u>	<u>(1,573,026)</u>
Excess of revenues and other sources over expenditures and other uses		
	844,161	(1,573,026)
Fund balance, beginning of year	<u>2,145,095</u>	<u>3,718,121</u>
Fund balance, end of year	<u>\$2,989,256</u>	<u>\$2,145,095</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For The Year Ended September 30, 2006

Net change in fund balances - total governmental funds	\$844,161
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	79,395
Deduct: depreciation expense	(177,748)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of this fund is reported within governmental activities.	
Add: net revenue (expense) from governmental internal service fund	63,068
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: principal payments on long term debt	77,926
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(56,590)</u>
Change in net assets of governmental activities	<u><u>\$830,212</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Net Assets
Proprietary Funds
September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$53,099	\$53,163
Due from other funds	<u>83,532</u>	<u>20,400</u>
Total assets	136,631	73,563
Liabilities	<u>-</u>	<u>-</u>
Net Assets		
Restricted	<u>\$136,631</u>	<u>\$73,563</u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Years Ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Non-operating revenues		
Interest income	\$2,060	\$4,032
Operating transfers		
Operating transfers in - other funds	<u>61,008</u>	<u>16,624</u>
Change in net assets	63,068	20,656
Net assets, beginning of year	<u>73,563</u>	<u>52,907</u>
Net assets, end of year	<u><u>\$136,631</u></u>	<u><u>\$73,563</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Statement of Cash Flows
Proprietary Funds
For The Years Ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Internal activity - payments to other funds	<u>(\$2,124)</u>	<u>(\$391,722)</u>
Net cash used by operating activities	(2,124)	(391,722)
Cash flows from investing activities		
Interest revenue	<u>2,060</u>	<u>4,032</u>
Net (decrease) in cash	(64)	(387,690)
Cash and cash equivalents, beginning of year	<u>53,163</u>	<u>440,853</u>
Cash and cash equivalents, end of year	<u><u>\$53,099</u></u>	<u><u>\$53,163</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities		
Operating transfers	\$61,008	\$16,624
Change in assets and liabilities		
Due between funds	<u>(63,132)</u>	<u>(408,346)</u>
Cash flows from operating activities	<u><u>(\$2,124)</u></u>	<u><u>(\$391,722)</u></u>

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Berrien Mental Health Authority
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Berrien Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Berrien County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Berrien Mental Health Authority
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Berrien Mental Health Authority
Notes to Financial Statements

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Berrien Mental Health Authority
Notes to Financial Statements

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Restricted Cash Equivalents

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30. The Authority holds a separate deposit account for payment of the compensated absences liability.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Berrien Mental Health Authority
Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year on construction of capital assets.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	N/A
Buildings and Improvements	25
Furniture, Fixtures and Equipment	5
Vehicles	4
Capital Lease Obligations	5

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in accounts payable and due to other governmental units.

Berrien Mental Health Authority
Notes to Financial Statements

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings and compensated absences are examples of the latter.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Berrien County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through the Summit Pointe for Medicaid-qualified services rendered to residents of Berrien County. Summit Pointe contracts with the MDCH to administer these Medicaid funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Berrien Mental Health Authority
Notes to Financial Statements

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 28 of this report as unfavorable variances.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Authority's cash and cash equivalents was as follows:

	2006	2005
Petty cash	\$675	\$1,679
Cash and cash equivalents	5,322,170	4,359,343
Cash and cash equivalents - restricted	500,006	380,348
Totals	\$5,822,851	\$4,741,370

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2006, the carrying amount of the Authority's deposits was \$5,822,176, and the bank balance was \$6,759,205. Of the bank balance, \$100,000 was covered by federal depository insurance and \$6,659,205 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

	2006	2005
Cash and cash equivalents – current assets	\$5,322,845	\$4,359,343
Cash and cash equivalents – restricted assets	500,006	380,348
Totals	\$5,822,176	\$4,739,691

Berrien Mental Health Authority
Notes to Financial Statements

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United State Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Berrien Mental Health Authority
Notes to Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2006	2005
Department of Community Health – OBRA	\$61,818	\$30,115
Department of Community Health – PATH Grant	-	3,157
Department of Community Health – Child Consultation	12,046	18,650
Summit Pointe	2,702	399
Totals	\$76,566	\$52,321

Changes in Capital Assets

A summary of changes in the Authority's capital assets is as follows:

Assets	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$38,000	-	-	\$38,000
Buildings and Improvements	152,000	\$43,728	-	195,728
Furniture, Fixtures and Equipment	2,757,290	19,519	(\$865,253)	1,911,556
Vehicles	128,771	16,148	(19,838)	125,081
Capital Lease Obligations	972,090		(882,003)	90,087
Sub-totals	4,048,151	79,395	(1,767,094)	2,360,452
Accumulated Depreciation	(3,268,397)	(177,748)	\$1,767,094	(1,679,051)
Totals	\$779,754	(\$98,353)	-	\$681,401

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Berrien Mental Health Authority
Notes to Financial Statements

Due to Other Governmental Units

As of September 30, this liability consists of the following:

	2006	2005
State of Michigan – State Inpatient/Residential Care	\$277,196	\$203,275
Summit Pointe – Medicaid Cost Settlement	333,904	308,294
Summit Pointe – Transfer of Unspent Medicaid Savings	-	366,833
Totals	\$611,100	\$878,402

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Deferred Revenue

The amount reported as deferred revenue includes the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Long Term Liabilities – Compensated Absences

Authority policy allows full time employees to accumulate vacation time at various rates, depending on the employee's length of service with the Authority. As of September 30, 2006 and 2005, this liability was \$363,375 and \$306,785, respectively.

Long –Term Liabilities – Loans

Vehicle Lease

During the 2002 fiscal year, the Authority entered into a capital lease contract for the purchase of a vehicle. Payments are due monthly in the amount of \$568, including interest at the rate of .9% per annum. As of September 30, 2006 and 2005, the balance of this loan was \$0 and \$568, respectively.

During the 2004 fiscal year, the Authority entered into two loan agreements for the purchase of two vehicles. Payments are due monthly in the amount of \$1,106, including interest at the rate of 6.49% per annum. As of September 30, 2006 and 2005, the balance of these loans was \$19,914 and \$30,542, respectively.

Berrien Mental Health Authority
Notes to Financial Statements

Telephone System Loan

During the 2004 fiscal year, the Authority entered into a loan agreement for the purchase of a telephone system. Payments are due monthly in the amount of \$5,165, including interest at the rate of 2.99% per annum. As of September 30, 2006 and 2005, the balance of this loan was \$126,420 and \$186,918, respectively.

Real Estate Loan

During the 2005 fiscal year, the Authority entered into a loan agreement for the purchase of real estate. Payments are due monthly in the amount of \$1,111, including interest at a rate of 3.83% per annum. As of September 30, 2006 and 2005, the balance of this loan was \$141,960 and \$148,192, respectively.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2006 are as follows, including total interest payments of \$46,666.

Year Ended September 30,	Amount
2007	\$88,584
2008	83,051
2009	23,336
2010	13,332
2011	13,332
2012-2016	66,660
2017-2021	46,665

During the year, the following changes occurred in long-term liabilities:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$306,785	\$56,590	-	\$363,375
Vehicle Loans	31,110	-	\$11,196	19,914
Telephone System	186,918	-	60,498	126,420
Real Estate	148,192	-	6,232	141,960
Totals	\$673,005	\$56,590	\$77,926	\$651,669

Berrien Mental Health Authority
Notes to Financial Statements

Operating Leases

The Authority has entered into various operating leases for the use of real property and vehicles. Operating leases do not give rise to property rights or lease obligations, and therefore, are not capitalized.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2006:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2007	\$225,310
2008	214,670
2009	214,670
2010	161,003
2011	-
2012 – 2016	-

Retirement Systems

401(a) Money Purchase Plan

Plan Description

Effective January 1, 1998, the Authority was registered as a new governmental entity due to Authority Status. Accordingly, the employees of the Authority voted to join a 401(a) Money Purchase Plan instead of participating in the Social Security system.

Funding Policy

Full time employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions for the years ended September 30, 2006 and 2005 were 4.9% of employee wages.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

Berrien Mental Health Authority
Notes to Financial Statements

Pension Plan

Plan Description

Substantially all employees of the Authority are covered by the Berrien County Employees Amended Retirement Plan (the "Plan"). The Plan provides retirement, disability and death benefits to members and their beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2005. The Authority's payroll for employees covered by the Plan for the 2006 and 2005 fiscal years was \$6,108,537 and \$6,595,136, respectively.

Funding Policy

All Authority employees who work more than 1,000 hours per year are eligible to participate in the plan. Members who retire at or after age 60 with 5 years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.7% of their final 5-year average earnings, as defined, for each year of credited service.

Vested employees may retire on or after age 55 with 5 years of service, or after 25 years of service regardless of age, and receive reduced retirement benefits. The plan also provides death and disability benefits.

Covered employees are required to contribute 4.5% of their salary to the plan. The Authority contributes a percentage of payroll calculated and recommended each year by the plan's actuary. For the years ended September 30, 2006 and 2005, the Authority contributed \$97,762 and \$93,221, respectively, to this retirement plan.

The actuarial accrued liability at December 31, 2005 (the date of the most recent available information) for the plan as a whole, determined through an actuarial valuation performed as of that date, was \$123.5 million. The plan's valuation assets at December 31, 2005 were \$120.1 million resulting in funding below actuarial accrued liability of \$3.4 million. Valuation assets, determined by the actuary, are equal to reported fair value assets, adjusted for amortization of actuarial gains and losses.

For Berrien Mental Health Authority, the actuarial accrued liability at December 31, 2005, determined through an actuarial valuation performed as of that date, was \$10.3 million. The plan's valuation assets allocated to the Authority at December 31, 2005 were \$14.4 million resulting in funding in excess of the actuarial accrued liability of \$4.1 million.

Berrien Mental Health Authority
Notes to Financial Statements

Historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due, and other information regarding the plan, is presented in the financial statements of the county of Berrien, Michigan for the year ended December 31, 2005.

In addition to pension benefits, employees of the Authority who retire under provisions of the plan may elect to continue their hospitalization and health care insurance coverage, provided they pay fifty percent of the actual cost of premiums.

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000,000 for property and crime. The premium charged to the Authority by MMRMA was \$113,560 for the period July 1, 2006 to July 1, 2007.

Berrien Mental Health Authority
Notes to Financial Statements

Risk Management – Internal Service Fund

During the September 30, 1999 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.

Subsequent Event

After year-end, the Authority entered into a loan agreement for the purchase of real estate. The amount of the loan totaled \$360,000. Payments are due monthly in the amount of \$2,860, including interest at a rate of 4.990% per annum. Loan payments begin December 31, 2006.

Commitments and Contingencies

As of September 30, 2006, the Authority had the following contingencies which are not recognized in these financial statements:

- Michigan Department of Community Health (MDCH) compliance audit for the 2004 fiscal year – preliminary report indicates \$16,000 is due from the Authority to the MDCH. The Authority, however, contests some of the issues noted in the report and feels that a final amount of liability is uncertain. The Authority is still in the negotiation stage with the MDCH regarding this compliance audit.

REQUIRED SUPPLEMENTAL INFORMATION

Berrien Mental Health Authority
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For The Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
State grants				
Department of Community Health contract general fund formula and categorical	\$5,079,128	\$5,033,113	\$5,081,880	\$48,767
Adult Benefit Waiver	600,647	627,819	554,422	(73,397)
MI Child Capitation	25,956	23,846	23,725	(121)
Other State grants	28,172	21,785	17,177	(4,608)
Total State grants	<u>5,733,903</u>	<u>5,706,563</u>	<u>5,677,204</u>	<u>(29,359)</u>
Federal grants	<u>417,501</u>	<u>542,210</u>	<u>690,206</u>	<u>147,996</u>
Contributions - local units				
County appropriations	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Charges for services				
Medicaid - Venture contract	19,292,807	19,718,412	20,404,179	685,767
Client and third party pay	580,510	989,313	748,834	(240,479)
Other contract revenue	547,968	288,567	191,889	(96,678)
Total charges for services	<u>20,421,285</u>	<u>20,996,292</u>	<u>21,344,902</u>	<u>348,610</u>
Interest and rents				
Interest	<u>86,670</u>	<u>179,786</u>	<u>241,830</u>	<u>62,044</u>
Other revenue				
United way	17,425	12,277	13,139	862
Miscellaneous	18,077	19,165	23,199	4,034
Total other revenue	<u>35,502</u>	<u>31,442</u>	<u>36,338</u>	<u>4,896</u>
Total revenues	<u>27,194,861</u>	<u>27,956,293</u>	<u>28,490,480</u>	<u>534,187</u>

Berrien Mental Health Authority
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For The Year Ended September 30, 2006

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Expenditures				
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$7,892,108	\$7,842,019	\$7,891,066	(\$49,047)
Operating expenditures	18,904,689	19,362,926	19,519,963	(157,037)
Capital outlay	-	-	79,395	(79,395)
Debt service	-	-	94,887	(94,887)
Total expenditures	26,796,797	27,204,945	27,585,311	(380,366)
Revenues over (under) expenditures	398,064	751,348	905,169	153,821
Other financing sources (uses)				
Operating transfers in (out) - other funds	-	-	(61,008)	(61,008)
Excess of revenues and other sources over expenditures and other uses	398,064	751,348	844,161	92,813
Fund balance, beginning of year	2,145,095	2,145,095	2,145,095	-
Fund balance, end of year	\$2,543,159	\$2,896,443	\$2,989,256	\$92,813

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTAL INFORMATION

Berrien Mental Health Authority
Supporting Schedule of Personnel Costs
For The Years Ending September 30, 2006 and 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Personnel costs		
Salaries and wages	\$6,108,537	\$6,595,136
Fringe benefits	<u>1,782,529</u>	<u>2,060,893</u>
 Total personnel costs	 <u><u>\$7,891,066</u></u>	 <u><u>\$8,656,029</u></u>

See Accompanying Notes To Financial Statements

Berrien Mental Health Authority
Supporting Schedule of Operating Expenditures
For The Years Ending September 30, 2006 and 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Operating expenditures		
Communications	\$68,680	\$106,868
Contractual services	1,346,450	1,800,124
Grant expense	153,144	128,481
Health care expenses	15,373,378	14,163,074
Insurance	141,762	165,740
Legal and accounting	80,241	105,704
Local funds contribution	384,498	384,498
Rents	507,085	539,765
Repairs and maintenance	325,129	289,799
Staff development	149,773	116,401
Supplies and other	643,821	391,834
Travel	198,319	212,511
Utilities	102,353	70,667
Venture services	45,330	32,560
	<hr/>	<hr/>
Total operating expenditures	<u>\$19,519,963</u>	<u>\$18,508,026</u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Berrien Mental Health Authority
Benton Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Berrien Mental Health Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

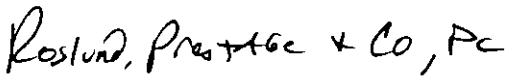
In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated November 22, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.


Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Berrien Mental Health Authority
Benton Harbor, Michigan

Compliance

We have audited the compliance of Berrien Mental Health Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006

BERRIEN MENTAL HEALTH AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Current Year Expenditures	Federal Revenue Recognized	Financial Statement Page
Department Of Health And Human Services						
Passed Through The Michigan Department of Community Health Block Grants For Community Mental Health Services	93.958	05B1CMHS-03	\$13,809	\$13,780	\$13,780	
Department Of Health And Human Services						
Passed Through The Michigan Department of Community Health Medical Assistance Program	93.778	-	-	369,609	369,609	
Department Of Health And Human Services						
Passed Through The Michigan Department of Community Health Child Care and Development Block Grant	93.575	0401MICDF	64,340	64,340	64,340	
Department Of Health And Human Services						
Passed Through The Michigan Department of Community Health Projects for Assistance in Transition from Homelessness	93.150	SMX060023K	115,500	101,681	101,681	
Department Of Health And Human Services						
Passed Through The Berrien County Health Department Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	SM-05-019	224,970	140,796	140,796	
Grand Totals				\$690,206	\$690,206	5

See Accompanying Notes To Financial Statements

BERRIEN MENTAL HEALTH AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
SEPTEMBER 30, 2006

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Berrien Mental Health Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Medical Assistance Program, CFDA # 93.778 was audited as a major program and represents 54% of federal program expenditures.
- The threshold for distinguishing Type A and B programs was \$300,000.
- Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Community Health.

NOTE 3 – RECONCILIATION OF FEDERAL REVENUE

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported in the financial statements.

BERRIEN MENTAL HEALTH AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COST
YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's opinion issues:	Unqualified
Internal control over financial reporting:	
▪ Material weaknesses identified?	None
▪ Reportable conditions identified that are not considered to be material weaknesses?	None
Noncompliance material to financial statements noted?	None

FEDERAL AWARDS

Internal control over major program:	
▪ Material weaknesses identified?	None
▪ Reportable conditions identified that are not considered to be material weaknesses?	None
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No
Identification of major programs:	

CFDA #93.778 – Medical Assistance Program

FINANCIAL STATEMENT FINDINGS

None.

FEDERAL AWARD FINDINGS AND QUESTIONED COST

None.



MANAGEMENT LETTER

Board of Directors
Berrien Mental Health Authority
Benton Harbor, Michigan

In planning and performing our audit of the financial statements for Berrien Mental Health Authority for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 22, 2006 on the financial statements of Berrien Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co, PC
Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 22, 2006

Provide Health Savings Accounts

Due to increasing costs of providing health insurance to the Authority's employees, we believe the Authority could take advantage of health savings accounts as a means of cost reductions while minimizing the additional cost to employees.

Health Savings Accounts were established by the Medicare Prescription Drug and Modernization Act of 2003. These accounts operate like IRAs and allow eligible individuals to make a tax-deductible contribution to cover the cost of the deductible of a high-deductible policy. To be eligible to make a contribution, the deductible must be at least \$1,100 for single coverage and \$2,200 for family coverage. The contribution is limited to \$2,850 for single coverage or \$5,650 for family coverage. These amounts will be inflation adjusted each year. The contribution limits for individuals 55 or older are allowed to be increased in accordance with IRS Regulations. The individual can take tax-free withdrawals from the account to pay for the deductible when obtaining health care under the insurance policy.

Health Savings Accounts have several beneficial features:

- On the individual's tax return, the deduction is claimed above the line for arriving at adjusted gross income, so individuals can claim it whether they itemize or not.
- There is no phase-out to the deduction for higher-income individuals like there is with an IRA.
- Any income earned on amounts in the account is tax-free for federal income tax purposes.
- Contributions not withdrawn for medical expenses can remain in the account to build a reserve for future years' expenses.
- Money can be withdrawn from the Health Savings Account to pay for qualified medical expenses. Any money withdrawn for other reasons will be subject to a 10 percent penalty and taxation. HSA holders over 65 years of age may use the account as a retirement nest egg and withdraw money for any reason without penalty.
- The Authority may, but need not, make deductible contributions for its employees; employer contributions are not subject to employment taxes and are not taxable to the employees.

A number of insurance companies offer high-deductible plans designed to enable employers of all sizes to take advantage of health savings accounts. Some insurers will also provide administrative services for the savings accounts.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.